

## Message Text

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ACTION EB-08

INFO OCT-01 EA-09 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00

DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-02 AID-05 SS-15 STR-04 ITC-01 TRSE-00

USIA-15 PRS-01 SP-02 OMB-01 FEA-01 /093 W

-----280900 070067 /17

R 280738Z FEB 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6476

UNCLAS SECTION 1 OF 2 MANILA 2919

E.O. 11652: N/A

TAGS: ETRD, RP

SUBJ: THE PHILIPPINE WATCH INDUSTRY

REF: A) 76 STATE 263360 B) STATE 038009

1. BEGIN SUMMARY: THE PHILIPPINE WATCH INDUSTRY IS CHARACTERIZED BY MINOR PRODUCTION OF CONVENTIONAL WATCHES FOR DOMESTIC CONSUMPTION AND EXPORT TO HONG KONG AND JAPAN, SOME ASSEMBLY OF ELECTRONIC WATCH MODULES ON CONSIGNMENT MAINLY FROM US FIRMS, AND THE PROPOSED START-UP BY TIMEX OF A MAJOR OPERATION TO PRODUCE 10 MILLION SOLID STATE WATCHES ANNUALLY FOR THE US MARKET. THE EXPORT OF CONVENTIONAL WATCHES AND WATCH CASES TO THE U.S. FROM 1971 TO 1976 WAS INSIGNIFICANT. FIGURES ON THE EXPORT OF WATCH MODULES TO THE U.S. DO NOT APPEAR IN THE BUREAU OF CENSUS TRADE FIGURES.

END SUMMARY.

2. CONVENTIONAL WATCHES. ONE LOCAL FIRM, PHILIPPINE TIMEPIECE MANUFACTURING CORPORATION (PTMC) PRODUCES ABOUT 10,000 UNITS ANNUALLY, VALUED AT ABOUT \$34,000, WITH ABOUT 75 PERCENT OF PRODUCTION GOING TO HONG KONG. A JAPANESE FIRM, RICOH, PRODUCES CONVENTIONAL WATCH MODULES IN THE EXPORT PROCESSING ZONE FOR SALE TO ITS PARENT IN JAPAN ONLY. PRODUCTION IS APPROACHING 20,000 UNITS/MONTH.

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NON-CONVENTIONAL WATCHES AND MOVEMENTS. TIMEX HAS A PLANT SCHEDULED TO BE OPERATIONAL THIS YEAR THAT WILL PRODUCE 10 MILLION SOLID STATE ELECTRONIC WATCHES UNDER BOND ANNUALLY. COMPONENTS WILL BE SOURCED WORLDWIDE AND THE WATCHES SOLD IN THE U.S. OTHER LOCAL FIRMS ACTIVE IN SOLID STATE WATCH MODULE ASSEMBLY HAVE EXPERIMENTED WITH ELECTRONIC WATCH MANUFACTURE FOR THE DOMESTIC MARKET

BUT HAVE DROPPED IT AS UNPROFITABLE. ONE OF THESE FIRMS HAS PLANS TO RE-START PRODUCTION OF ELECTRONIC DIGITAL WATCHES OF THE LED AND LCD TYPE THIS YEAR. IT WILL HAVE AN ANNUAL CAPACITY OF 75,000 UNITS AND WILL SHIP 80 PERCENT OF ITS PRODUCTION ABROAD. ANOTHER LOCAL FIRM IS PRESENTLY NEGOTIATING WITH AZTEC, A US MANUFACTURER, FOR ASSEMBLY OF DIGITAL WATCHES UNDER CONSIGNMENT. TWO FIRMS ARE PRESENTLY ASSEMBLING SOLID STATE WATCH MODULES UNDER CONSIGNMENT TO FOREIGN FIRMS, PRINCIPALLY U.S. THESE FIRMS WILL NOT PROVIDE SPECIFIC PRODUCTION DATA, BUT INDICATE THAT PRODUCTION AVERAGES AROUND 20,000 UNITS/MONTH PER FIRM. THREE OTHER FIRMS ARE CONTEMPLATING PRODUCTION OF SOLID STATE MODULES AT SIMILAR LEVELS.

SOLID STATE WATCH MODULE CIRCUITS. NO LOCAL PRODUCTION.

COMPONENTS FOR SOLID-STATE MODULES. NO LOCAL PRODUCTION.

CASES. PTMC PRODUCES ABOUT 48,000 CONVENTIONAL AND 80,000 NON-CONVENTIONAL WATCH CASES ANNUALLY FOR THE HONG KONG MARKET, VALUED AT \$54,000 AND \$100,000 RESPECTIVELY. ONE OTHER FIRM PRODUCES WATCH CASES FOR ITS HONG KONG PARENT FIRM BUT WOULD NOT RELEASE PRODUCTION DATA.

3. WE COULD NOT DETERMINE IF THE MODULES ASSEMBLED UNDER CONSIGNMENT FOR US FIRMS CITED IN PARA 2 ABOVE WERE SHIPPED UNDER ITEMS 806.30 AND 807.00 OF THE TSUS. OF INTEREST IN THIS CONTEXT, HOWEVER IS A REMARK BY THE LOCAL TIMEX REPRESENTATIVE THAT HIS FIRM WAS HAVING DIFFICULTY MEETING THE LOCAL BOARD OF INVESTMENTS REQUIREMENT FOR 20 PERCENT VALUE UNCLASSIFIED

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ADDED LOCALLY DUE TO THE HIGH COST OF THE COMPONENTS COMPARED TO THE LOCAL LABOR INPUT.

4. ALL FIRMS PRESENTLY OR RECENTLY ACTIVE IN THE PHILIPPINE WATCH INDUSTRY ARE CORPORATIONS REGISTERED UNDER THE EXPORT PRIORITY PLAN (EPP) OF THE BOARD OF INVESTMENTS. OWNERSHIP VARIES FROM 100 PERCENT LOCAL, TO JOINT VENTURES, TO 100 PERCENT FOREIGN WHICH IS ALLOWED UNDER THE EPP. FIRMS RANGE FROM 80 EMPLOYEES TO 3,000. EXCEPT FOR TIMEX AND RICOH, ALL WATCH AND MODULE ASSEMBLY OPERATIONS ARE A SMALL PART OF A LARGER FIRM SPECIALIZING IN ASSEMBLY OF SEMI-CONDUCTORS AND INTEGRATED CIRCUITS, ALSO ON CONSIGNMENT AND UNDER BOND. FIRMS SOURCE COMPONENTS WORLD-WIDE WITH THE MAJOR PORTION COMING FROM US SUPPLIERS.

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5. THE NATURE OF THE INDUSTRY IS LABOR INTENSIVE. ASSEMBLY ONLY IS UNDERTAKEN HERE. MOST MACHINERY AND EQUIPMENT IS SOURCED FROM JAPAN. SOME SUPPLIES LIKE PLASTICS, SCREWS, AND PLATING, ARE SOURCED LOCALLY. ASSEMBLY OPERATIONS IN THE ELECTRONICS INDUSTRY, AND THEREFORE NON-CONVENTIONAL WATCH ASSEMBLY, ARE NEW TO THE PHILIPPINES. THERE ARE NO FORESEEN PROSPECTIVE TECHNOLOGICAL DEVELOPMENTS OR CHANGES IN PRODUCTS AND MANUFACTURING PROCESSES, EXCEPT AS NOTED ABOVE.

6. THE CURRENT TARIFF STRUCTURE OF THE R.P. GOVERNMENT DOES NOT MAKE ANY DISTINCTION BETWEEN CONVENTIONAL WATCHES AND ELECTRONIC WATCHES. ALL WATCHES, CASES, AND PARTS ARE ASSESSED AT 30 PERCENT AD VALOREM, REGARDLESS OF ACQUISITION COST.

THERE ARE NO KNOWN QUOTAS, IMPORT RESTRICTIONS, OR OTHER NON-TARIFF BARRIERS ON WATCHES. HOWEVER, SMUGGLED WATCHES FROM HONG KONG, JAPAN AND OTHER ASIAN POINTS DO FIND THEIR WAY INTO THE DISTRIBUTION SYSTEM AND AFFECT THE MARKETABILITY OF LEGALLY PRODUCED OR IMPORTED WATCHES. BASED ON STATISTICAL COMPILATIONS OF THE NATIONAL CENSUS AND STATISTICS OFFICE, THE

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US SHARE OF THE MARKET ON WRIST WATCHES, AND CLOCKS FOR THE PERIOD UNDER STUDY WAS VERY INSIGNIFICANT.

7. PRODUCTION WORKERS IN THE ELECTRONICS INDUSTRY EARN FROM

8 PESOS (\$1.08) TO 18 PESOS (\$2.43) PER DAY FOR AN EIGHT HOUR SHIFT. THEY GENERALLY WORK 6 DAYS A WEEK. A THIRTEENTH MONTH SALARY IS PAID AT CHRISTMAS. EMPLOYERS ALSO CONTRIBUTE WITH EMPLOYEES TO THE SOCIAL SECURITY SYSTEM AND MEDICARE. A 30-60 PESO (\$4.00 TO \$8.00) COST OF LIVING ALLOWANCE IS PAID MONTHLY.

8. WITH 43 MILLION PEOPLE, THERE IS A GOOD POTENTIAL MARKET IN THE PHILIPPINES FOR LOW PRICED WATCHES. THE SMUGGLING PROBLEM IS A DEFINITE DETERRENT TO LOCAL PRODUCTION OF WATCHES FOR DOMESTIC CONSUMPTION. TIMEX AND SEIKO ARE BOTH LIKELY TO GO INTO MARKETING OF LOCALLY ASSEMBLED CONVENTIONAL AND ELECTRONIC WATCHES IF FEASIBILITY STUDIES PRESENTLY UNDER WAY PROVE THE ACTIVITY VIABLE. TIMEX IS THE ONLY FIRM KNOWN TO BE CONTEMPLATING ASSEMBLY OF COMPLETE WATCHES IN A SIGNIFICANT SCALE FOR EXPORT. THE PRODUCTION OF WATCH MODULES FROM IMPORTED COMPONENTS HAS BEEN AND IS EXPECTED TO REMAIN A SHAKY BUSINESS. ONE LOCAL PRODUCER SAID THAT SEVERE PRICE CUTTING IN DIGITAL WATCHES IN THE U.S. HAS HURT PHILIPPINE PRODUCTION SEVERELY. PROFITABILITY IN THE LOCAL INDUSTRY IS NOT GOOD. EARNINGS DEPEND ON FIXED MARK-UPS FOR LABOR INPUT FOR ASSEMBLY ON CONSIGNMENT FROM ABROAD. PRODUCTION IS SPORADIC AND DEPENDENT ON RECEIPT OF LARGE ORDERS. NO LOCAL PRODUCTION OF SOLID STATE WATCH MODULE CIRCUITS, OR OTHER COMPONENTS FOR SOLID-STATE MODULES IS FORESEEN. WITH THE EXCEPTION OF TIMEX AND RICOH, AND POSSIBLY SEIKO, THE PHILIPPINE WATCH INDUSTRY, BEING SMALL AND FOCUSED ON ASSEMBLY ON CONSIGNMENT, SHOULD REMAIN SUBJECT TO THE VAGARIES OF THE WATCH INDUSTRY ABROAD.

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## Message Attributes

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